

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Ahmeek, Michigan		County Keweenaw
Fiscal Year End February 28, 2006	Opinion Date August 10, 2006		Date Audit Report Submitted to State August 23, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA			Telephone Number (906) 337-2727	
Street Address 116 Fifth Street			City Calumet	State MI
			Zip 49913	
Authorizing CPA Signature <i>Jackie A. Aalto</i>		Printed Name Jackie A. Aalto		License Number 1101022394

VILLAGE OF AHMEEK, MICHIGAN
Keweenaw County

FINANCIAL REPORT

February 28, 2006

VILLAGE OF AHMEEK, MICHIGAN
FINANCIAL REPORT
Year Ended February 28, 2006

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INDEPENDENT AUDITOR'S REPORT

The Village Council
Village of Ahmeek, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ahmeek, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ahmeek, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note I-C, the Village of Ahmeek, Michigan prepares its governmental activities in the government-wide financial statements and its governmental fund financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. The amounts that should be recorded are not known.

In my opinion, except for the effects on the financial statements of the item described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major governmental fund and the aggregate remaining fund information of the Village of Ahmeek, Michigan, as of and for the year ended February 28, 2006 and the respective changes in financial position – modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note I-C.

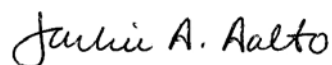
In addition, in my opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the Village of Ahmeek, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of February 28, 2006.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 10, 2006, on my consideration of the Village of Ahmeek, Michigan’s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management’s discussion and analysis and budgetary comparison information on pages 5 through 10 and 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Ahmeek, Michigan’s basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Jackie A. Aalto, CPA

Calumet, Michigan
August 10, 2006

VILLAGE OF AHMEEK, MICHIGAN

Management's Discussion and Analysis

The management of the Village of Ahmeek, Michigan ("the Village") offers readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$2,153,787 (net assets). Governmental activities represented \$255,205 of this amount and business-type activities represented \$1,898,582.
- The Village's total net assets increased by \$104,108. This increase was primarily due to a grant received for the purchase of a fire truck.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$15,890, or 6% of total General Fund expenditures.
- The Village's total debt decreased by \$7,314 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, fire protection,

highways and streets, sanitation, economic development and culture and recreation. Business-type activities of the Village include the operations of the water and sewer systems.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

Proprietary funds. The Village maintains one type of proprietary fund. Enterprise funds are used to account for business-like activities provided to the general public. The Village uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 16 - 19 of this report

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Village has no fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* that explains and supports the information presented in the financial statements. Required supplementary information can be found on page 31 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 33 and 34 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceed liabilities by \$2,153,787 at the close of the most recent fiscal year.

A large portion of the Village's net assets (91%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Ahmeek, Michigan's Net Assets (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 69.9	\$ 122.4	\$ 192.3
Capital assets	<u>207.1</u>	<u>2,040.7</u>	<u>2,247.8</u>
Total Assets	<u>277.0</u>	<u>2,163.1</u>	<u>2,440.1</u>
Long-term liabilities outstanding	21.7	258.0	279.7
Other liabilities	<u>.1</u>	<u>6.5</u>	<u>6.6</u>
Total Liabilities	<u>21.8</u>	<u>264.5</u>	<u>286.3</u>
Net Assets:			
Invested in capital assets, net of related debt	185.4	1,782.7	1,968.1
Restricted	53.9	17.1	71.0
Unrestricted	<u>15.9</u>	<u>98.8</u>	<u>114.7</u>
Total Net Assets	<u>\$ 255.2</u>	<u>\$ 1,898.6</u>	<u>\$ 2,153.8</u>

An additional portion of the Village's net assets (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$114,664) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets.

The Village's net assets increased by \$104,108 during the current fiscal year. This increase was due to a grant received for the purchase of a fire truck. Key elements of this increase are as follows:

Village of Ahmeek, Michigan's Changes in Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 18.0	\$ 61.8	\$ 79.8
Operating grants & contributions	25.5		25.5
Capital grants & contributions	171.0		171.0
General revenues:			
Property taxes	15.3		15.3
State-shared revenues	18.5		18.5
Interest	<u>.9</u>	<u>1.5</u>	<u>2.4</u>
Total Revenues	<u>249.2</u>	<u>63.3</u>	<u>312.5</u>
Expenses:			
General government	32.7		32.7
Public safety	7.4		7.4
Public works	7.8		7.8
Highways & streets	14.6		14.6
Sanitation	12.4		12.4
Recreation & culture	1.6		1.6
Water		53.1	53.1
Sewer		77.5	77.5
Interest on long-term debt	<u>1.2</u>	<u></u>	<u>1.2</u>
Total Expenses	<u>77.7</u>	<u>130.6</u>	<u>208.3</u>
Increase (decrease) in net assets	171.5	(67.3)	104.2
Net Assets – Beginning	<u>83.7</u>	<u>1,965.9</u>	<u>2,049.6</u>
Net Assets – Ending	<u>\$ 255.2</u>	<u>\$ 1,898.6</u>	<u>\$ 2,153.8</u>

Governmental activities. The most significant portion of the revenues for all governmental activities for the current fiscal year of the Village comes from Capital Grants & Contributions. This is the result of a grant received for the purchase of a fire truck.

Operating Grants and Contributions are a major source of revenue. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

Charges for Services are typically a significant portion of revenues. The largest portion of this revenue comes from sanitation fees charged to Village residents.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the state sales tax. During the year, the amount of state shared revenue received by the Village trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

Property taxes are a major source of the revenue. The Village's operating millage was 12.9744, which includes 2.5110 mills for garbage.

The most significant portion of the expenses for all governmental activities of the Village is for general government. This represents Village hall activities. Highways and streets include maintenance support activities for snow removal operations.

Business-type activities. Business-type activities decreased the Village's net assets by \$67,350. This decrease was caused mainly by depreciation of \$21,559 and \$40,539 in the Water and Sewer Funds, respectively. The Water and Sewer Funds account for the Village's water and sewer operations.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$69,766. Approximately 23% of this total amount (\$15,890) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service and for a variety of other purposes.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, all of the General Fund balance of \$15,890 was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. This fund balance represents 6% of total General Fund expenditures.

The fund balance of the Village's General Fund decreased by \$31,098 during the current fiscal year, mainly due to the Village's share of the cost of a fire truck purchased with a \$171,000 grant.

General Fund Budgetary Highlights

During the year there was a \$6,626 increase in appropriations between the original and final amended budget. Expenditures exceeded appropriations by \$199,243. This over expenditure was mainly caused by the purchase of a fire truck for \$197,841.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental activities as of February 28, 2006, amounts to \$207,125 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and park facilities. The only capital asset purchased during the current year was a fire truck for \$197,841.

Village of Ahmeek, Michigan's Capital Assets

(net of depreciation)
(in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
Land	\$ 8.0	\$ 46.9	\$ 54.9
Buildings & site improvements	2.6	11.1	13.7
Machinery & equipment	196.5	39.0	235.5
Water system		689.1	689.1
Sewer system		1,254.6	1,254.6
Total Assets	<u>\$ 207.1</u>	<u>\$ 2,040.7</u>	<u>\$ 2,247.8</u>

Additional information on the Village's capital assets can be found in Note IV on pages 26 and 27 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt of \$279,686. Of this amount \$21,686 is backed by the full faith and credit of the government and \$258,000 involves a pledge of specific income derived from the water and sewer operations. The Village's total debt decreased by \$7,314 during the current fiscal year.

Additional information on the Village's long-term debt can be found in Note VI on pages 28 and 29 of this report.

Request for Information

This financial report is intended to provide a general overview of the Village's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Ahmeek, 15 Vivian Street, Ahmeek, Michigan 49901.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Net Assets – Modified Cash Basis

February 28, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash	\$ 69,932	\$ 74,242	\$ 144,174
Receivables, net		13,313	13,313
Prepays		2,250	2,250
Deferred charges		11,743	11,743
Restricted assets – cash		20,895	20,895
Capital assets not being depreciated	8,000	46,874	54,874
Capital assets being depreciated, net	<u>199,125</u>	<u>1,993,809</u>	<u>2,192,934</u>
Total Assets	<u>277,057</u>	<u>2,163,126</u>	<u>2,440,183</u>
Liabilities			
Accounts payable and other current liabilities	166	2,774	2,940
Accrued interest payable		3,770	3,770
Noncurrent liabilities:			
Due within one year	2,223	4,000	6,223
Due in more than one year	<u>19,463</u>	<u>254,000</u>	<u>273,463</u>
Total Liabilities	<u>21,852</u>	<u>264,544</u>	<u>286,396</u>
Net Assets			
Invested in capital assets, net of related debt	185,439	1,782,683	1,968,122
Restricted for:			
Debt service		17,125	17,125
Highways & streets	53,876		53,876
Unrestricted	<u>15,890</u>	<u>98,774</u>	<u>114,664</u>
Total Net Assets	<u>\$ 255,205</u>	<u>\$ 1,898,582</u>	<u>\$ 2,153,787</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended February 28, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Governmental Activities	Business-type Activities
							Total
Primary Government:							
Governmental activities:							
General government	\$ 32,736	\$ 3,750	\$ 6,273	\$	\$ (22,713)	\$	\$ (22,713)
Public safety	7,394			171,000	163,606		163,606
Public works	7,782	4,454			(3,328)		(3,328)
Highways & streets	14,613		19,156		4,543		4,543
Sanitation	12,403	9,823			(2,580)		(2,580)
Recreation & culture	1,601				(1,601)		(1,601)
Interest on long-term debt	1,216				(1,216)		(1,216)
Total governmental activities	<u>77,745</u>	<u>18,027</u>	<u>25,429</u>	<u>171,000</u>	<u>136,711</u>		<u>136,711</u>
Business-type activities:							
Water	53,074	27,332				(25,742)	(25,742)
Sewer	<u>77,550</u>	<u>34,437</u>				<u>(43,113)</u>	<u>(43,113)</u>
Total business-type activities	<u>130,624</u>	<u>61,769</u>				<u>(68,855)</u>	<u>(68,855)</u>
Total primary government	<u>\$ 208,369</u>	<u>\$ 79,796</u>	<u>\$ 25,429</u>	<u>\$ 171,000</u>	<u>136,711</u>	<u>(68,855)</u>	<u>67,856</u>
General revenues:							
Property taxes					15,319		15,319
State shared revenues					18,493		18,493
Interest					<u>935</u>	<u>1,505</u>	<u>2,440</u>
Total general revenues					<u>34,747</u>	<u>1,505</u>	<u>36,252</u>
Change in net assets					171,458	(67,350)	104,108
Net assets – Beginning					<u>83,747</u>	<u>1,965,932</u>	<u>2,049,679</u>
Net assets – Ending					<u>\$ 255,205</u>	<u>\$ 1,898,582</u>	<u>\$ 2,153,787</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

**Balance Sheet – Modified Cash Basis
Governmental Funds**

February 28, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	<u>\$ 16,056</u>	<u>\$ 53,876</u>	<u>\$ 69,932</u>
Liabilities and Fund Balances			
Liabilities			
Intergovernmental payable	<u>\$ 166</u>	<u>\$</u>	<u>\$ 166</u>
Fund Balances			
Reserved for highways & streets		53,876	53,876
Unreserved	<u>15,890</u>	<u></u>	<u>15,890</u>
Total Fund Balances	<u>15,890</u>	<u>53,876</u>	69,766
Total Liabilities and Fund Balances	<u>\$ 16,056</u>	<u>\$ 53,876</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

207,125

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

(21,686)

Net assets of governmental activities

\$ 255,205

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Governmental Funds

Year Ended February 28, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 15,319	\$	\$ 15,319
Intergovernmental			
Federal	171,000		171,000
State	18,493	19,929	38,422
Charges for services	13,177		13,177
Interest and rents	5,058	727	5,785
Other revenue	<u>5,500</u>	<u></u>	<u>5,500</u>
Total Revenues	<u>228,547</u>	<u>20,656</u>	<u>249,203</u>
Expenditures			
Current			
General government	19,573	220	19,793
Public safety	3,372		3,372
Public works	7,782		7,782
Highways & street		14,613	14,613
Sanitation	12,403		12,403
Recreation & culture	1,601		1,601
Other	12,543		12,543
Debt service			
Principal	3,314		3,314
Interest	1,216		1,216
Capital outlay	<u>197,841</u>	<u></u>	<u>197,841</u>
Total Expenditures	<u>259,645</u>	<u>14,833</u>	<u>274,478</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(31,098)	5,823	(25,275)
Fund Balances – Beginning	<u>46,988</u>	<u>48,053</u>	
Fund Balances – Ending	<u>\$ 15,890</u>	<u>\$ 53,876</u>	

VILLAGE OF AHMEEK, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances –
Modified Cash Basis (Continued)
Governmental Funds**

Year Ended February 28, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			193,419
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.			<u>3,314</u>
Change in net assets of governmental activities			<u>\$ 171,458</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Net Assets Proprietary Funds

February 28, 2006

	<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 12,763	\$ 61,479	\$ 74,242
Accounts receivable, net	4,606	8,707	13,313
Prepays	565	1,685	2,250
Due from other funds	<u>144</u>	<u> </u>	<u>144</u>
Total Current Assets	<u>18,078</u>	<u>71,871</u>	<u>89,949</u>
Noncurrent assets:			
Restricted assets – cash	6,145	14,750	20,895
Capital assets not being depreciated	5,900	40,974	46,874
Capital assets net of accumulated depreciated	689,283	1,304,526	1,993,809
Deferred charges	<u>6,108</u>	<u>5,635</u>	<u>11,743</u>
Total Noncurrent Assets	<u>707,436</u>	<u>1,365,885</u>	<u>2,073,321</u>
Total Assets	<u>725,514</u>	<u>1,437,756</u>	<u>2,163,270</u>
Liabilities			
Current Liabilities:			
Accounts payable	1,307	510	1,817
Accrued expenses	482	475	957
Due to other funds		144	144
Payable from restricted assets:			
Interest payable	1,103	2,667	3,770
Current portion of revenue bonds payable	<u>1,000</u>	<u>3,000</u>	<u>4,000</u>
Total Current Liabilities	3,892	6,796	10,688
Noncurrent Liabilities:			
Revenue bonds payable	<u>97,000</u>	<u>157,000</u>	<u>254,000</u>
Total Liabilities	<u>100,892</u>	<u>163,796</u>	<u>264,688</u>
Net Assets			
Invested in capital assets, net of related debt	597,183	1,185,500	1,782,683
Restricted for debt service	5,042	12,083	17,125
Unrestricted	<u>22,397</u>	<u>76,377</u>	<u>98,774</u>
Total Net Assets	<u>\$ 624,622</u>	<u>\$ 1,273,960</u>	<u>\$ 1,898,582</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds**

Year Ended February 28, 2006

	<u>Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 27,332	\$ 34,437	\$ 61,769
Operating Expenses			
Cost of water	17,098		17,098
Personal services	5,385	5,181	10,566
Administration	420	448	868
Utilities	476	2,881	3,357
Supplies & maintenance	2,561	11,971	14,532
Other services and charges	983	8,205	9,188
Depreciation	21,559	40,539	62,098
Amortization	<u>171</u>	<u>225</u>	<u>396</u>
Total Operating Expenses	<u>48,653</u>	<u>69,450</u>	<u>118,103</u>
Operating Income (Loss)	<u>(21,321)</u>	<u>(35,013)</u>	<u>(56,334)</u>
Nonoperating Revenues (Expenses)			
Interest income	318	1,187	1,505
Interest expense	<u>(4,421)</u>	<u>(8,100)</u>	<u>(12,521)</u>
Total Nonoperating Revenues (Expenses)	<u>(4,103)</u>	<u>(6,913)</u>	<u>(11,016)</u>
Change in Net Assets	(25,424)	(41,926)	(67,350)
Net Assets - Beginning	<u>650,046</u>	<u>1,315,886</u>	<u>1,965,932</u>
Net Assets - Ending	<u>\$ 624,622</u>	<u>\$ 1,273,960</u>	<u>\$ 1,898,582</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Statement of Cash Flows Proprietary Funds

Year Ended February 28, 2006

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 27,676	\$ 34,489	\$ 62,165
Payments to suppliers	(21,999)	(23,316)	(45,315)
Payments to employees	(5,239)	(5,100)	(10,339)
Net cash provided by operating activities	438	6,073	6,511
Cash Flows from Noncapital Financing Activities			
Due to/from other funds	(3,000)	3,000	
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets		(8,347)	(8,347)
Principal paid on capital debt	(1,000)	(3,000)	(4,000)
Interest paid on capital debt	(4,432)	(8,150)	(12,582)
Net cash used by capital and related financing activities	(5,432)	(19,497)	(24,929)
Cash Flows from Investing Activities			
Interest received	318	1,187	1,505
Net Increase (Decrease) in Cash and Restricted Cash	(7,676)	(9,237)	(16,913)
Cash and Restricted Cash – Beginning	26,584	85,466	112,050
Cash and Restricted Cash – Ending	<u>\$ 18,908</u>	<u>\$ 76,229</u>	<u>\$ 95,137</u>
Reconciliation of operating income (loss) to net cash provided operating activities:			
Operating income (loss)	\$ (21,321)	\$ (35,013)	\$ (56,334)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	21,559	40,539	62,098
Amortization	171	225	396

VILLAGE OF AHMEEK, MICHIGAN

Statement of Cash Flows (Continued)
Proprietary Funds

Year Ended February 28, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
(Increase) decrease in accounts receivable	344	52	396
(Increase) decrease in prepaids	(20)	(40)	(60)
Increase (decrease) in accounts payable	(441)	229	(212)
Increase (decrease) in accrued expenses	<u>146</u>	<u>81</u>	<u>227</u>
Net cash provided by operating activities	<u>\$ 438</u>	<u>\$ 6,073</u>	<u>\$ 6,511</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note I – Summary of Significant Accounting Policies

The Village of Ahmeek, Michigan was organized on April 9, 1909 and covers an area of approximately sixty acres. The Village is governed by an elected seven member council and provides the following services: fire protection, street maintenance, sanitation, water, sewer, recreation and general administration. Except for the use of the modified cash basis of accounting for the Village of Ahmeek, Michigan's governmental activities as described in Note I C, the accounting policies of the Village of Ahmeek, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Ahmeek, Michigan:

Implementation of GASB Statement No. 34

Although the Village presents its annual nonproprietary type financial statements on a comprehensive basis of accounting other than GAAP, the aspects of financial statement content and format, as prescribed by GASB Statement No. 34, have been implemented in the financial statements, effective for the year ended February 28, 2006.

The primary changes from the prior years' financial presentations include:

- A new format for the Village's basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of infrastructure capital assets (such as roads, bridges, etc.) of governmental activities beginning March 1, 2004, of which there were none.
- The reporting of budget and actual information for the General Fund in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

A. Financial Reporting Entity

In determining the financial reporting entity, the Village complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

component units (traditionally separate reporting entities) that the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

Other – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. The modified cash basis of accounting is used to report the governmental activities. The accrual basis of accounting is used to report the business-like activities and the

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

proprietary fund financial statements. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Village utilized the basis of accounting recognized as generally accepted, the governmental funds financial statements would use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The government-wide financial statements would be presented on the accrual basis of accounting.

The Village reports the following major governmental fund:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the water distribution system.

The *Sewer Fund* accounts for the activities of the sewage collection system.

Additionally, the Village reports the following nonmajor governmental funds: Major Street and Local Street.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected to follow subsequent private-sector guidance.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Bank Deposits – The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. The Village has no short-term investments.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

The 2005 taxable valuation of the Village totaled \$1,196,420, on which ad valorem taxes levied consisted of 10.4634 mills for operating purposes and 2.5110 mills for garbage removal. This resulted in \$12,518 for operating and \$3,003 for garbage removal. These amounts are recognized in the General Fund.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The restricted assets are related to revenue bond retirement and bond reserve accounts in the proprietary funds.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Prior to March 1, 2004 governmental funds' infrastructure assets were not capitalized. Infrastructure acquired since March 1, 2004 will be recorded at cost. However, no such assets were acquired from March 1, 2004 to February 28, 2006.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer systems	50 to 75 years
Machinery and equipment	5 to 25 years

Long-term Obligations – In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note II – Stewardship, Compliance, and Accountability

A. Budgetary Information

The Village is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in governmental funds.

B. Excess of Expenditures over Appropriations

For the year ended February 28, 2006, expenditures exceeded appropriations in the General and Major Street Funds by \$199,243 and \$309, respectively. These over expenditures were funded by grant proceeds in the General Fund and by available fund balance in the Major Street Fund.

C. Administration of Street Funds

Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on nonmotorized transportation services and facilities. The Village has not met this requirement by \$263.

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note III – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority. The Village has designated one bank for the deposit of Village funds.

The Village's deposits and investments as of February 28, 2006 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash	\$ 69,932	\$ 74,242	\$ 144,174
Restricted assets – cash	<u> </u>	<u>20,895</u>	<u>20,895</u>
	<u>\$ 69,932</u>	<u>\$ 95,137</u>	<u>\$ 165,069</u>

The bank balance of the Village's deposits is \$167,441 all of which is covered by federal depository insurance.

Note IV – Capital Assets

Capital asset activity for the year ended February 28, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,000	\$	\$	\$ 8,000
Capital asset being depreciated:				
Buildings & improvements	50,000			50,000
Machinery & equipment	<u>7,500</u>	<u>197,841</u>		<u>205,341</u>
Total capital assets being depreciated	<u>57,500</u>	<u>197,841</u>		<u>255,341</u>

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
Accumulated depreciation for:				
Building & improvements	(46,850)	(600)		(47,450)
Machinery & equipment	<u>(4,944)</u>	<u>(3,822)</u>		<u>(8,766)</u>
Total accumulated depreciation	<u>(51,794)</u>	<u>(4,422)</u>		<u>(56,216)</u>
Total capital assets being depreciated, net	<u>5,706</u>	<u>193,419</u>		<u>199,125</u>
Governmental activities capital assets, net	<u>\$ 13,706</u>	<u>\$ 193,419</u>	<u>\$</u>	<u>\$ 207,125</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 46,874</u>	<u>\$</u>	<u>\$</u>	<u>\$ 46,874</u>
Capital assets being depreciated:				
Buildings & improvements	8,750	8,347		17,097
Water system	855,864			855,864
Sewer system	1,708,945			1,708,945
Equipment	<u>126,120</u>			<u>126,120</u>
Total capital assets being depreciated	<u>2,699,679</u>	<u>8,347</u>		<u>2,708,026</u>
Accumulated depreciation:				
Buildings & improvements	(5,468)	(530)		(5,998)
Water system	(145,272)	(21,498)		(166,770)
Sewer system	(420,161)	(34,179)		(454,340)
Equipment	<u>(81,218)</u>	<u>(5,891)</u>		<u>(87,109)</u>
Total accumulated depreciation	<u>(652,119)</u>	<u>(62,098)</u>		<u>(714,217)</u>
Total capital assets being depreciated, net	<u>2,047,560</u>	<u>(53,751)</u>		<u>1,993,809</u>
Business-type activities capital assets, net	<u>\$ 2,094,434</u>	<u>\$ (53,751)</u>	<u>\$</u>	<u>\$ 2,040,683</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:

General government	\$ 400
Public safety	<u>4,022</u>
Total depreciation expense - governmental activities	<u>\$ 4,422</u>

Business-type activities

Water	\$ 21,559
Sewer	<u>40,539</u>
Total depreciation expense - business-type activities	<u>\$ 62,098</u>

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

Note V – Interfund Receivables and Payables

The composition of interfund balances as of February 28, 2006 was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Sewer Fund	<u>\$ 144</u>

Interfund balances represent routine and temporary cash flow assistance until funds are transferred.

Note VI – Long-Term Liabilities

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

The Village also issues revenue bonds to provide for capital acquisition and construction. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term liability activity for the year ended February 28, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Loan – fire truck					
Interest is 3.75% to be adjusted					
February 2010, matures February					
2015	<u>\$ 25,000</u>	<u>\$</u>	<u>\$ (3,314)</u>	<u>\$ 21,686</u>	<u>\$ 2,223</u>
Business-type Activities:					
<i>Revenue Bonds:</i>					
Water Supply System					
Interest is 4.5%, matures June 2041	<u>\$ 99,000</u>	<u>\$</u>	<u>\$ (1,000)</u>	<u>\$ 98,000</u>	<u>\$ 1,000</u>
Sewage Disposal System					
Interest is 5.0%, matures November					
2031	<u>163,000</u>	<u></u>	<u>(3,000)</u>	<u>160,000</u>	<u>3,000</u>
Business-type activities –long-term liabilities	<u>\$ 262,000</u>	<u>\$</u>	<u>\$ (4,000)</u>	<u>\$ 258,000</u>	<u>\$ 4,000</u>

VILLAGE OF AHMEEK, MICHIGAN

Notes to Financial Statements

February 28, 2006

Annual debt service requirements to maturity for the above bonds and contractual obligations are as follows:

Year Ended February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 2,223	\$ 787	\$ 4,000	\$ 12,388
2008	2,306	704	5,000	12,193
2009	2,395	615	5,000	11,948
2010	2,486	524	5,000	11,703
2011	2,581	429	5,000	11,458
2012-2016	9,695	837	33,000	52,953
2017-2021			41,000	44,025
2022-2026			53,000	33,203
2027-2031			59,000	18,340
2032-2036			19,000	8,753
2037-2041			24,000	3,796
2042			5,000	113
	<u>\$ 21,686</u>	<u>\$ 3,896</u>	<u>\$ 258,000</u>	<u>\$ 220,873</u>

Note VII – Risk Management

The Village is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation). The Village has purchased commercial insurance through the Michigan Township's Participating Plan for various claims. The Village pays an annual premium for its insurance coverage. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

Note VIII – Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any, to be immaterial.

Required Supplementary Information

VILLAGE OF AHMEEK, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended February 28, 2006**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 46,988	\$ 46,988	\$ 46,988
Resources (Inflows):			
Taxes	15,000	15,319	15,319
Intergovernmental			
Federal			171,000
State	18,453	18,493	18,493
Charges for services	12,300	13,177	13,177
Interest & rents	5,050	5,058	5,058
Other revenues	<u>3,041</u>	<u>3,438</u>	<u>5,500</u>
Amounts Available for Appropriation	<u>100,832</u>	<u>102,473</u>	<u>275,535</u>
Charges to Appropriations (Outflows):			
General government	20,029	18,773	19,573
Public safety	6,062	7,106	3,372
Public works	8,930	7,782	7,782
Sanitation	12,400	12,403	12,403
Recreation & culture	1,575	1,451	1,601
Other	4,780	12,887	12,543
Debt service			
Principal			3,314
Interest			1,216
Capital outlay	<u> </u>	<u> </u>	<u>197,841</u>
Total Charges to Appropriations	<u>53,776</u>	<u>60,402</u>	<u>259,645</u>
Ending Budgetary Fund Balance	<u>\$ 47,056</u>	<u>\$ 42,071</u>	<u>\$ 15,890</u>

Other Supplementary Information

VILLAGE OF AHMEEK, MICHIGAN

**Combining Balance Sheet – Modified Cash Basis
Nonmajor Governmental Funds
February 28, 2006**

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Major Street</u>	<u>Local Street</u>	
Assets			
Cash	<u>\$ 38,155</u>	<u>\$ 15,721</u>	<u>\$ 53,876</u>
 Liabilities and Fund Balances			
Liabilities	\$	\$	\$
 Fund Balances			
Reserved for highways & streets	<u>38,155</u>	<u>15,721</u>	<u>53,876</u>
 Total Liabilities and Fund Balances	<u>\$ 38,155</u>	<u>\$ 15,721</u>	<u>\$ 53,876</u>

VILLAGE OF AHMEEK, MICHIGAN

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
Modified Cash Basis
Nonmajor Governmental Funds
Year Ended February 28, 2006**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Major Street</u>	<u>Local Street</u>	
Revenues			
Intergovernmental – State	\$ 14,730	\$ 5,199	\$ 19,929
Interest	<u>529</u>	<u>198</u>	<u>727</u>
Total Revenues	<u>15,259</u>	<u>5,397</u>	<u>20,656</u>
Expenditures			
Current			
General government	110	110	220
Highways & streets	<u>11,127</u>	<u>3,486</u>	<u>14,613</u>
Total Expenditures	<u>11,237</u>	<u>3,596</u>	<u>14,833</u>
Net Change in Fund Balances	4,022	1,801	5,823
Fund Balances – Beginning	<u>34,133</u>	<u>13,920</u>	<u>48,053</u>
Fund Balances – Ending	<u>\$ 38,155</u>	<u>\$ 15,721</u>	<u>\$ 53,876</u>

VILLAGE OF AHMEEK, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Village Council
Village of Ahmeek, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ahmeek, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village of Ahmeek, Michigan's basic financial statements and have issued my report thereon dated August 10, 2006. The report was a special report on the Village's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America, and was qualified because the basic financial statements do not include the Volunteer Firemen's Fund which should be included to conform to accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Ahmeek, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Ahmeek, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Following is a description of the reportable condition. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

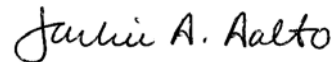
control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Ahmeek, Michigan's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Village of Ahmeek, Michigan in a separate letter dated August 10, 2006.

This report is intended solely for the information and use of the council members, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.


Jackie A. Aalto, CPA

Calumet, Michigan
August 10, 2006

August 10, 2006

The Village Council
Village of Ahmeek, Michigan

In planning and performing my audit of the financial statements of the Village of Ahmeek, Michigan for the year ended February 28, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Ahmeek, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remains involved in the financial affairs of the Village to provide oversight and independent review functions. As part of the process of strengthening internal controls I recommend that the Council:
 - a. Adopt a conflict of interest policy.
 - b. Sign approved council minutes.
 - c. Separate the water/sewer/sanitation billing and collection responsibilities.
 - d. Adopt a formal investment policy.
 - e. Adopt a credit card use policy.
 - f. Adopt a capitalization policy.

Other Comments and Recommendations

2. P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the current fiscal year, expenditures exceeded appropriations in the General and Major Street Funds by \$199,243 and \$309, respectively. The General Fund expenditures exceeded appropriations due to the purchase of a fire truck which was not budgeted. However, it is recommended that the Village Council fully comply with all provisions of the Act.
3. The financial statements do not include the Volunteer Firemen's Fund. Because the volunteer fire department is not a separate legal entity and its fund raising is done in the name of the Village and all expenditures are not being fully accounted for, I recommend that all of the financial activity should be reported in the Village's financial statements.
4. The governmental activities in the government-wide financial statements and the governmental fund financial statements of the Village are prepared on modified cash basis of accounting. I recommend that the Village prepare the government-wide financial statements on an accrual basis of accounting and the governmental fund financial statements on modified accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America.

5. Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on non-motorized transportation services and facilities. The Village has not met this requirement by \$263. I recommend that the Village develop a plan of project expenditures in the Street Funds to comply with this requirement.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2006 financial statements, and this report does not affect my report on those financial statements dated August 10, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Jackie A. Aalto". The signature is written in a cursive, flowing style.

Jackie A. Aalto, CPA